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SUBJECT: IMF ANALYSIS OF EFFECTS OF WORLD FINANCIAL CRISIS ON BENIN

¶1. (U) SUMMARY: The Resident Representative (resrep) of the International Monetary Fund (IMF) Koffi Yao presented the IMF report on the world financial crisis, its impact on Sub-Saharan Africa and the probable avenues of transmission of negative effects on Benin at the World Bank's Cotonou headquarters on March 2. While not particularly vulnerable through the international banking system, Benin will likely feel the effects of the world-wide crisis through decreased exports to its more exposed trading partners. Yao also suggested ways that the Government of Benin (GOB) and the international community could manage these risks. END SUMMARY.

¶2. (U) Koffi Yao presented results of the IMF's January 2009 World Economic Outlook at a meeting of representatives of donor countries at the World Bank's Cotonou mission. IMF estimates project falling growth rates of GDP around the world - but remaining positive for all but the most industrialized countries.

¶3. (U) Benin's ties to the international banking system are weak particularly with respect to US banks. Beninese banking ties are generally closer to French banks, whereas British and South African banks are also more closely linked to Sub-Saharan Africa in general. The banking sector will have a limited role as an avenue of transmission for negative effects of the economic crises on Benin.

¶4. (U) Benin's single most important export is cotton (47% of the total). Nigeria and China each account for 20% of cotton exports. Both recipient countries are greatly exposed to the effects of the crisis, Nigeria through the oil slump and China through the weakened world market for manufactured goods. Although the percentage of GDP directly tied to exports is low, this exposes Benin to indirect negative impact.

¶5. (SBU) Benin is also exposed to the effects of the crisis through decreased aid, remittances and foreign direct investment. In particular, individuals remitting foreign earnings live primarily in heavily exposed countries: EU, US and ECOWAS. Yao mentioned one IMF suggestion that aid be increased to Gleneagles levels to off-set decreases in other flows. (NOTE: Participants were not enthusiastic about this suggestion and pointed to the GOB's inability to absorb current levels of aid. END NOTE.)

¶6. (U) Yao suggested ways that the GOB could mitigate the local effects of the crisis. He said that improved collection and administration of public revenues would allow them to reduce the tax rate while mobilizing additional resources. The GOB could also manage the budget to prioritize spending on the most effective sectors and reduce spending on the least productive items.

¶7. (U) Yao encouraged the central bank to work with the financial sector to monitor potential vulnerabilities. He also recommended that the CFA zone focus on medium-term stability as the weakening GDP growth rate leads to reduced demand for money.

18. (SBU) COMMENT. While the IMF's suggestions seem well-reasoned they are not yet part of the GOB's program. As the crisis unfolds, it may move the GOB in that direction. Participants at the meeting noted that IMF statistics omit the informal sector which is likely bigger than the formal one. Yao conceded that point but noted that as much of the informal sector is linked to cross border trade with Nigeria (a heavily exposed country) it may be more vulnerable than the official statistics predict. END COMMENT.

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